

**SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE**  
**SPECIAL SERVICE DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE  
SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF SAN JUAN COUNTY)  
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FOR THE YEAR ENDED DECEMBER 31, 2008**

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# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.

R. KIRT RICH, C.P.A.

GREG MARSING, C.P.A.

DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

Members of the Board  
San Juan Mental Health\Substance Abuse  
Special Service District  
356 South Main  
Blanding, Utah 84511

We have audited the accompanying financial statements of the business-type activities of San Juan Mental Health\Substance Abuse Special Service District, as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of San Juan Mental Health\Substance Abuse Special Service District as of December 31, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2008 on our consideration of San Juan Mental Health\Substance Abuse Special Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the financial section of the table of contents, is not a required part of the basic financial statements, but is supplementary information, required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Laurie, Rich & Marsing", written in dark ink.

Price, Utah

June 12, 2009

**SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE  
SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF SAN JUAN COUNTY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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Our discussion and analysis of San Juan Mental Health\Substance Abuse Special Service District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2008. All of the financial activity results from "business-type" activities.

**FINANCIAL HIGHLIGHTS**

- ❖ Total Revenues from business activities increased to \$1,722,131 in 2008 from \$1,196,855 in 2007. An increase of 43.89% in business revenue for 2008 compared to a decrease of 12.64% in 2007. (The increase in revenue is mainly attributable to an increase in payments from Medicaid/Private pay/other and Intergovernmental (grants) operating revenue.)
- ❖ Total business expenses increased to \$1,600,480 in 2008 from \$1,277,448 in 2007. An increase of 25.29% during 2008 compared to a decrease of 15.91% in 2007. (The increase in expenditures is related to several factors. Salaries and benefits, office expense, operating supplies, maintenance, contract labor and Medicaid match requirements for 2008.)
- ❖ Non-operating revenues and expense for the district were as follows:
  - a. Interest earned in 2008 totaled \$24,365 as compared to \$34,100 in 2007. The decrease in earnings was due to lower interest rates and average cash balances.
  - b. Net assets during 2008 increased by \$142,467 as compared to a \$50,298 decrease for 2007. The increase in net assets is due to the increase in revenue that was more than the increase in expenses.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The financial reports; Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows, comprise pages 11-16. Governmental accounting practices that are standard and acceptable have been used and followed in preparation of these reports. The purpose of the financial reports is to identify Revenues and Expenses resulting from business activities. The net income or (loss) from operations, adjusted for depreciation, identifies the need for further analysis of contracts and programs with their related expenses. Certain key financial ratios taken from the Statement of Net Assets help identify financial strength and liquidity. Since the District is operated as an enterprise fund, there are no fund statements presented because all operations of the District are reported using the accrual method of accounting.

## **REPORTING THE DISTRICT BUSINESS OPERATIONS**

Our analysis of the District as a whole begins on page 11. The key financial reports, prepared from our information by our independent auditors, provide the accounting from which schedules in this report have been created. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets summarize the District's business operations for the year and provide a basis for assessing financial strengths and weaknesses. From these reports, trends are monitored and budgets are prepared for future periods. These reports are prepared using the accrual accounting method, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or payment made.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets, the District shows all of the activities in one fund.

- ❖ Business-type activities – The District charges Medicaid, contracts, insurances and patients for their individual care and treatments that are provided. Charges for these services are based on cost study reports and reimbursement rates that have been established by our contracts. We realize that a portion of our services are unrecoverable and written off, but we constantly monitor the services we provide and the subsequent collection for these services and evaluate what areas need to be improved. Although San Juan County funds are received, these funds are used only to pay the required match for our Medicaid mental health and substance abuse contracts.

## **REPORTING THE DISTRICT'S SIGNIFICANT FUND**

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements, which begin on page 11, provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using an accrual accounting method, which records expenses when they are incurred and records revenues when they are earned. The District does not have any governmental type funds.

## **THE DISTRICT AS A TRUSTEE**

The District does not hold any funds or property in a trustee capacity.

## THE DISTRICT'S KEY FINANCIAL REPORTS

### NET ASSET REPORT

	BUSINESS- TYPE ACTIVITIES 2007	BUSINESS- TYPE ACTIVITIES 2008
<b>ASSETS</b>		
Current and other assets	\$ 1,038,273	\$ 1,193,677
Capital assets (net)	490,628	475,194
Total assets	<u>\$ 1,528,901</u>	<u>\$ 1,668,871</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 140,936	\$ 144,796
Long-term liabilities	147,017	140,660
Total liabilities	<u>\$ 287,953</u>	<u>\$ 285,456</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of debt	\$ 358,628	\$ 353,194
Restricted	406,413	473,526
Unrestricted	475,907	556,695
Total net assets	<u>\$ 1,240,948</u>	<u>\$ 1,383,415</u>

Net Assets total of the District for 2008 are \$1,383,415. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$556,695. These net assets are used to finance the continuing operations of providing services to the mental health and substance abuse facility.

The District's Board adopted a resolution, restricting retained earnings for ninety days of operational budget, funds for compensated absences and capital outlay, as well as the bond reserve requirements. The balance has changed from 2007 to 2008. An increase in the current year expenses, compensated absences liability and capital outlay set aside have caused a different calculation needed for the reserved retained earnings.

A key financial ratio - the Current Ratio - is calculated by dividing current assets by current liabilities. This ratio is an indicator of liquidity and ability to pay current operational bills. The ratio for the year ending December 31, 2008 is 8.24 compared to 7.37 for 2007. The District's ratio indicates a strong liquidity position and has increased significantly during the past year.

	TYPE ACTIVITIES 2007	TYPE ACTIVITIES 2008
<b>REVENUES</b>		
Program Revenues:		
Charges for services	\$ 476,465	\$ 535,029
Grants and contributions	696,157	1,131,530
General Revenues:		
Interest income - not restricted	34,100	24,365
Other revenues	24,233	55,572
Total revenues	<u>\$ 1,230,955</u>	<u>\$ 1,746,496</u>
<b>EXPENSES</b>		
Program Expense:		
Salaries and fringe	\$ 819,780	\$ 1,006,996
Consulting\contract services	179,937	187,051
Materials and supplies	24,343	48,010
Utilities	8,221	9,148
Insurance	28,733	27,205
Depreciation	40,125	43,856
Repairs and maintenance	39,399	84,131
Medicaid match	115,126	145,374
Other	25,589	52,258
Total expenses	<u>\$ 1,281,253</u>	<u>\$ 1,604,029</u>
Change in net assets	<u>\$ (50,298)</u>	<u>\$ 142,467</u>
Net assets - beginning	\$ 1,291,246	\$ 1,240,948
Prior period adjustment	1,240,948	1,383,415
Net assets - ending	<u>\$ (50,298)</u>	<u>\$ 142,467</u>



The District's increase in net assets is an indication that changes made in previous years and the current year, have helped to develop a positive outlook. Additional changes might need to be made, but the direction at the present time is more positive than in the past. The ability to continue to operate efficiently and provide the necessary services for the County continues to be the main goal and focus of the District. The District realizes that fluctuations will occur from year to year and all need to work together to achieve our goals. The District believes that the changes made will continue to be effective in the future.

## CASH SOURCES AND USES

	2007	2008
Beginning cash balance as of January 1,	\$ 968,016	\$ 779,301
Change in net assets:	\$ (80,593)	\$ 121,651
Depreciation (source of cash)	40,125	43,856
Accounts receivable decrease (source of cash)	(4,097)	8,493
Due from other governments increase (use of cash)	68,407	(12,687)
Prepaid expenses increase (use of cash)	956	(11,360)
Accounts payable decrease (use of cash)	(220,366)	(2,112)
Wages and payroll liabilities increase (source of cash)	14,968	6,161
Compensated absences increase (source of cash)	(6,285)	3,643
Interest income (source of cash)	34,100	24,365
Capital asset costs and debt payments (use of cash)	(35,930)	(42,160)
Total change in net assets	\$ (188,715)	\$ 139,850
Ending cash balance as of December 31,	\$ 779,301	\$ 919,151

Use of funds is controlled and authorized by the District's board of directors. The board of directors relies heavily on key personnel that are responsible to oversee the day-to-day operations. The executive director and business manager are crucial to the supervising and monitoring of the mental health facility. The board reviews the monthly financial information, compares year to date expenses to budget and makes necessary suggestions and/or corrections. All major, capital expenditures are approved by the board of directors. The board of directors approves an annual operational budget and forwards it to the County Commission and also submits copies of the budget to the State Auditor as required by Utah State law.

## BUSINESS ACTIVITIES AND PURPOSES

Revenues for the District are generated by providing services to clientele who meet the mental health, substance abuse, or other abuse criteria. Since the District has several grants and contracts, they are able to provide services for a broader spectrum of individuals. The District receives payments from several different sources. Funds come from Medicaid mental health and substance abuse, insurance companies, private individuals, federal and state grants and County match contributions. The District provides services to low-income individuals and the amount that they are required to pay depends on their income. A certain amount of these services are generally considered charity work or free care.

The objective and purpose of the District is to provide mental health and substance abuse facilities with responsible, well-trained professionals who can render assistance to individuals in San Juan County. As the need for these services continues to fluctuate, the District is striving to have in place, sufficient personnel and facilities.

## DEBT MANAGEMENT

As of December 31, 2008, the District had \$122,000 in revenue bonds outstanding. This debt was accepted by the Board in 1998 for the construction of a health care facility. More detailed information about the District's long-term liabilities is presented in note 11 on pages 26 and 27 of this report.

## BUDGETARY HIGHLIGHTS

The 2008 budget was adopted for the current year on December 19, 2007. Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. The original budget submitted to the Utah State Auditors office was \$1,703,481. After the auditor's adjustments, the actual expenditures amounted to \$1,604,029. The budget was under spent by \$99,452.

## CAPITAL ASSETS

As of December 31, 2008, the District had net capital assets of \$475,194. The District had \$28,422 of equipment capital asset purchases during 2008. Budgets have been created that account for the purchase of the equipment and the board approval is needed for all major capital expenditures. The following table shows the balance of assets reflected by the capitalization change.

### Capital Assets at Year-end (Net of Depreciation) 2007 and 2008

	Business-Type Activities	
	2007	2008
Land	\$ 65,500	\$ 65,500
Buildings	337,264	321,135
Improvements	32,706	28,541
Equipment	55,158	60,018
Net capital assets	<u>\$ 490,628</u>	<u>\$ 475,194</u>

This year's major additions included:

Computers (towers and laptops)	\$12,322
Dodge Durango SLT	16,100

The District's fiscal year 2008 capital budget will expend additional funds for equipment that will be needed on an as needed basis.

## **ECONOMIC FORECAST AND FUTURE BUDGET -**

San Juan Counseling will continue to provide a return on the mental health investment that includes both cost avoidance and revenue generation. The goal is that costs to the state and county criminal and juvenile justice and law enforcement programs will be reduced, as well as state child welfare expenses, state, county and private homelessness allocations and general health care expenditures. Communities benefit as clients become healthy and productive citizens.

However, San Juan Counseling's ability to provide the current level of service to residence of San Juan County is jeopardized by federal and state funding cuts. This year some programs, i.e. Drug Offender Rehabilitation Act (DORA) were cut completely from the budget due to loss of funding and other programs have suffered significant reduction in funding. Overall, San Juan Counseling has experienced an 18% loss of federal and state funding affecting almost all of the ten state mandated services. The financial picture was particularly dismal until there was an infusion of federal stimulus and one-time state money into state mental health and prevention services.

The health of federal and state economies and the level of support for mental health and prevention programs in the next legislature sessions are unknowns and will likely significantly impact the next budgetary cycle. San Juan Counseling continues to receive strong support from San Juan County. The County is committed to provide mental health and prevention services to their residents. San Juan Counseling has initiated numerous cost cutting measures to be able to continue services at acceptable levels. Resolving the Medicaid Cost Settlement from 2000 thru 2006 removed worrisome financial unknowns and erased potential financial liabilities to federal Medicaid.

To expand services throughout San Juan County, San Juan Counseling has applied for grants and will continue to seek additional funding sources. Notification of these grants is pending. By partnering with other area agencies, San Juan Counseling hope to improve "value added" services.

San Juan Counseling will continue to provide the required services mandated by the local authority and operate within the projected budgets prepared for the local authority.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of San Juan Mental Health\Substance Abuse Special Service District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Administrator or Executive Director of San Juan Counseling at 356 South Main, Blanding, Utah, 84511.

**SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE**  
**SPECIAL SERVICE DISTRICT**  
**(A COMPONENT UNIT OF SAN JUAN COUNTY)**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2008**

**BUSINESS-TYPE ACTIVITY**  
**ENTERPRISE FUND**

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**MENTAL HEALTH FACILITY**

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**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 904,276
Restricted cash and cash equivalents	13,300
Investment, at cost	1,575
Accounts receivable	116,726
Less: Allowance for doubtful accounts	(76,497)
Due from other governments	206,180
Prepaid expenses	28,117
	<hr/>
Total current assets	\$ 1,193,677
	<hr/>

**Noncurrent Assets:**

Capital Assets: (net)	
Land	\$ 65,500
Buildings	321,135
Improvements	28,541
Equipment	60,018
	<hr/>
Total noncurrent assets	\$ 475,194
	<hr/>
Total assets	\$ 1,668,871
	<hr/> <hr/>

"The accompanying notes are an integral part of this statement."

SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE  
SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF SAN JUAN COUNTY)  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2008

BUSINESS-TYPE ACTIVITY  
ENTERPRISE FUND

MENTAL HEALTH FACILITY

LIABILITIES

**Current liabilities:**

Accounts payable	\$ 62,422
Accrued wages payable	42,441
Payroll taxes payable	27,618
Accrued interest payable	2,315
Revenue bonds payable - Due within one year	10,000
	<hr/>
Total current liabilities	\$ 144,796

**Noncurrent liabilities:**

Revenue bonds payable - Due in more than one year	\$ 112,000
Compensated absences	28,660
	<hr/>
Total noncurrent liabilities	\$ 140,660
	<hr/>
Total liabilities	\$ 285,456

NET ASSETS

Investment in capital assets, net of related debt	\$ 353,194
Restricted for debt and capital outlay	473,526
Unrestricted	556,695
	<hr/>
Total net assets	\$ 1,383,415
	<hr/>
Total liabilities and net assets	\$ 1,668,871

"The accompanying notes are an integral part of this statement."

**SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE**  
**SPECIAL SERVICE DISTRICT**  
**(A COMPONENT UNIT OF SAN JUAN COUNTY)**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
	<u>MENTAL HEALTH FACILITY</u>
<b>Operating Revenues:</b>	
Charge for services - Medicaid/Private pay/Other	\$ 535,029
Intergovernmental	1,131,530
Miscellaneous	55,572
	<hr/>
Total operating revenue	\$ 1,722,131
	<hr/>
<b>Operating Expenses:</b>	
Salaries and benefits	\$ 1,006,996
Subscriptions and memberships	3,662
Professional services	9,225
Travel	16,622
Office expense	24,938
Utilities	9,148
Operating supplies	15,173
Depreciation	43,856
Maintenance and operation	24,342
Training	7,300
Insurance	27,205
Contract labor	187,051
Board expenses	1,988
Food	7,879
Clinical material	3,304
Client medication	933
Communications	18,065
Vehicle expense	23,772
Hospitalization	17,952
Medicaid match	145,374
Miscellaneous	5,695
	<hr/>
Total operating expenses	\$ 1,600,480
	<hr/>
Operating income (loss)	\$ 121,651
	<hr/>

"The accompanying notes are an integral part of this statement."

**SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE  
SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF SAN JUAN COUNTY)  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
	MENTAL HEALTH FACILITY
<b>Non-operating Revenues (Expenses)</b>	
Interest income	\$ 24,365
Debt interest/fees	(3,549)
	<hr/>
Total non-operating revenues (expenses)	\$ 20,816
	<hr/>
Change in net assets	\$ 142,467
	<hr/>
<b>Total net assets, January 1, 2008</b>	1,240,948
	<hr/>
<b>Total net assets, December 31, 2008</b>	<u>\$ 1,383,415</u>

"The accompanying notes are an integral part of this statement."

**SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE**  
**SPECIAL SERVICE DISTRICT**  
**(A COMPONENT UNIT OF SAN JUAN COUNTY)**  
**STATEMENT OF CASH FLOWS PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**Cash flows from operating activities:**

Cash received for services	\$ 543,522	
Cash payments to suppliers for goods and services	(563,100)	
Cash payments to employees for services	(997,192)	
Intergovernmental	1,118,843	
Other operating revenues	55,572	
	<hr/>	
Net cash used by operating activities		\$ 157,645

**Cash flows from noncapital financing activities:**

Contributed capital	\$ ...	
	<hr/>	
Net cash provided by noncapital financing activities		...

**Cash flows from capital and related financing activities:**

Acquisition of capital assets	\$ (28,422)	
Principal paid on revenue bonds	(10,000)	
Interest/fees paid on revenue bonds	(3,738)	
	<hr/>	
Net cash provided by capital and related financing activities		(42,160)

**Cash flow from investing activities:**

Interest on investments received	\$ 24,365	
	<hr/>	
Net cash provided by investing activities		24,365
		<hr/>
Net increase/(decrease) in cash and cash equivalents		\$ 139,850

**Cash and cash equivalents at January 1, 2008**

779,301

**Cash and cash equivalents at December 31, 2008**\$ 919,151

"The accompanying notes are an integral part of this statement."



SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE  
SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF SAN JUAN COUNTY)  
STATEMENT OF CASH FLOWS PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING  
ACTIVITIES:

Operating income (loss)		\$ 121,651
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 43,856	
Change in assets and liabilities:		
Increase in due from other governments	(12,687)	
Decrease in accounts receivable	8,493	
Increase in prepaid expense	(11,360)	
Decrease in accounts payable	(2,112)	
Increase in wages payable	2,371	
Increase in accrued liabilities	3,790	
Increase in compensated absences	3,643	
Total adjustments		<u>35,994</u>
Net cash used by operating activities		<u>\$ 157,645</u>

"The accompanying notes are an integral part of this statement."

**SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE  
SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF SAN JUAN COUNTY)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

San Juan Mental Health\Substance Abuse Special Service District was created as a special service district by the San Juan County Commissioners on April 1, 1997. The District is controlled by an Administrative Control Board, appointed by the County Commissioners under the authority of the provision of the Utah Special Service District Act, Chapter 17a, Title 2, Part 13, Utah Code Annotated, 1953, as amended, and Article XIV, Section 8 of the Constitution of Utah. The District is a component unit of San Juan County as defined by the Governmental Accounting Standards Board in their statement number 14 "The Financial Reporting Entity". The Board's authority is derived from the County Commissioners, who has ultimate responsibility for the District.

The Board consists of five members, each of whom is a qualified elector of the District and who are appointed by the County Commissioners. The County Commissioners appoint county residents who are willing to serve as members. These appointed members are educated as to the needs of the Special Service District.

The primary purpose of the District is to oversee, administer and manage a County owned, mental health facility that is responsive to the needs of the residents, their families and the community at large, through a consistently high standard of care. The accounting policies of San Juan Mental Health\Substance Abuse Special Service District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) providing an analysis of the District's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including notes to financial statements).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### A. Reporting Entity

All financial activities over which the District has oversight responsibility are included in this report. The basis for inclusion or exclusion of other entities in the District's financial statements was based on the criteria set forth in the Governmental Accounting Standards Board (GASB) pronouncements. The basic criteria for including an entity, a board, or an agency in this report is the existence and exercise of oversight responsibility; consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. According to the above criteria, no other entities have been included in the District's financial statements.

### B. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statement of cash flows. The District is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that its costs to providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges. The function of the District is to oversee, administer and manage a County owned, mental health facility that is responsive to the needs of the County. The financial statements of the District consist only of an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Therefore, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide or proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first then unrestricted resources, as they are needed.

Amounts reported as charges for services include all charges for all types of services charged to Medicaid, third party and private pay. Amounts reported as grants and County contributions for contract matching are accounted for as a intergovernmental revenue. Miscellaneous items are considered uncategorized as to specific type.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to patients for mental health services. Operating expenses for the District include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Capital Assets

Capital assets, which include, land, buildings, improvements and equipment are reported in the government-wide financial statements. Capital assets are defined by the District, as an asset with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District adopted a capitalization threshold in the amount of \$1,000.

Buildings, improvements and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Improvements	10 – 15
Equipment	5 – 12

E. Budget and Budgetary Accounting

The District follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. A formal budget is adopted by the District.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **Budget and Budgetary Accounting (Continued)**

2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. In accordance with State law, all appropriations lapse at the end of the budget year; accordingly, no encumbrances are recorded. As its option, the District may permit its expenditure accounts to remain open for a period of 30 days after the close of its fiscal year for the payment of approved invoices for goods received or services rendered prior to the close of the fiscal year.
3. The District's Manager prepares a tentative budget and submits it for review with the Administrative Control Board.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearings is published at least ten days prior to the meetings.
6. The District presents the tentatively adopted budget to the public in a public hearing. Members of the public may comment on the budget and recommend changes to the Administrative Control Board.
7. The Administrative Control Board considers the comments made by the public and makes final adjustments to the budget.
8. By December 15<sup>th</sup>, the Administrative Control Board adopts the budget by resolution. A copy of the budget is certified by the Administrative Control Board Secretary and is filed with the State Auditor within 30 days of adoption. A certified copy of the budget is available for public inspection.
9. The budget may be amended to reflect changes in circumstances that occur during the year. Budgets may be increased by resolution of the Board at any time during the year.
10. Under Utah Code, the District's budget establishes maximum legal authorization for expenditures during the fiscal year. The District's Manager shall certify as appropriate that a claim has been pre-audited, documented, and approved by the Board, and does not over expend the appropriate budget established by the Board. Expenditures are not to exceed the budget amounts, including revisions, except as allowed by the Code for certain events.

F. **Deposits and Investments**

Public funds held by San Juan Mental Health\Substance Abuse Special Service District may be deposited or invested only in instruments listed below and meet objectives outlined by State statutes, including: (a) safety of principal, (b) need for liquidity and (c) yield on investment.

Qualified investments:

- 1) Negotiable or non-negotiable deposits of qualified depositories.
- 2) Repurchase agreements with qualified depositories or primary reporting dealers.
- 3) Commercial paper, which is rated P-a by Moodys Investment Services or A-a by Standard and Poors, Inc., having a remaining term to maturity of 180 days or less.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### F. Deposits and Investments (Continued)

- 4) Banker's acceptances.
- 5) Other negotiable deposits of \$100,000 or more.
- 6) Obligations of the U.S. Treasury.
- 7) Obligations issued or guaranteed by some agencies or instrumentalities of the United States.
- 8) Tax anticipation and general obligation bonds of state and local governmental units.
- 9) Various other loans in accordance with Section 52-7-17 of the Utah Code Annotated 1953.

### G. Cash and Cash Equivalents

For purposes of the statement of cash flows, San Juan Mental Health\Substance Abuse Special Service District considers all highly liquid investments (including restricted assets) with a maturity of six months or less when purchased to be cash equivalents. All amounts reported on the balance sheet as cash and investments would be considered cash equivalents.

### H. Accounting Method

The full accrual method of accounting is being used. Under the accrual method of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred.

### I. Accumulated Unpaid Vacation and Sick Leave (Compensated Absences)

The District has vacation and sick leave policies, which determine an employee's vacation and sick leave based on the length of time of employment. The district will pay sick leave based on the following two options: election by the employee to use the cash value of the accumulated sick leave to provide premium payments for health insurance or election by the employee to cash out accumulated sick leave at a 33 1/3 percent of the accumulated sick leave. Both options are at the prevailing hourly rate at the time of retirement. One hundred percent of the vacation hours will be paid at the prevailing hourly rate at the time of retirement. The amount carried in the financial statements consists of vacation and sick leave hours accrued at year-end, at the prevailing rate of pay.

## 2. ACCOUNTS RECEIVABLE

Accounts receivable include the accrued amounts for private pay, third party insurance and other miscellaneous accounts. For the year ended December 31, 2008, an allowance for doubtful accounts has been recorded on the books.

### 3. BUDGET VARIANCE

During the year ended December 31, 2008, the District did not overspend their budget in the Enterprise Fund.

### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance 12-31-07	Additions	Contributions & Adjustments	Balance 12-31-08
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 65,500			\$ 65,500
Total capital assets not being depreciated	\$ 65,500	\$ ...	\$ ...	\$ 65,500
Capital assets being depreciated:				
Buildings	\$ 483,879			\$ 483,879
Improvements	58,737			58,737
Equipment	329,993	\$ 28,422		358,415
Total capital assets being depreciated	\$ 872,609	\$ 28,422	\$ ...	\$ 901,031
Less accumulated depreciation for:				
Buildings	\$ 146,615	\$ 16,129		\$ 162,744
Improvements	26,032	4,164		30,196
Equipment	274,834	23,563		298,397
Total accumulated depreciation	\$ 447,481	\$ 43,856	\$ ...	\$ 491,337
Total capital assets, being depreciated, net	\$ 425,128	\$ (15,434)	\$ ...	\$ 409,694
Business-type activities capital assets, net	\$ 490,628	\$ (15,434)	\$ ...	\$ 475,194

## **5. DEPOSITS AND INVESTMENTS**

Deposits and investing for the District is governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

### **Deposits**

#### *Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2008, the District's bank balance of cash on deposit was \$129,047 of this amount \$100,000 was insured.

### **Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.



## 5. DEPOSITS AND INVESTMENTS (Continued)

As of December 31, 2008, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$ 787,869	\$ 787,869			
Mental Health Risk Retention Group, Inc.	1,575				\$ 1,575
Total Investments	<u>\$ 789,444</u>	<u>\$ 787,869</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ 1,575</u>

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

## 5. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2008, the District had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	\$ 787,869				\$ 787,869
Mental Health Risk Retention Group, Inc.	1,575				1,575
Total	<u>\$ 789,444</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ 789,444</u>

### *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

### *Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2008, the District had \$787,869 invested in the Public Treasurer's Investment Fund and was held by them. The District also owns three shares of stock in Mental Health Risk Retention Group with a cost and estimated fair market value of \$1,575. The District's ownership percentage is less than 5%.

**6. INTERGOVERNMENTAL REVENUE**

The District receives federal and state grants and matching funds from San Juan County. The revenue received is shown as operating revenues on the Statement of Revenues, Expenses and Changes in Fund Net Assets. These funds are instrumental in the overall operations of the District and are used to enhance the services provided.

**7. PENSION PLAN**

Local Governmental – Cost Sharing

Plan Description. San Juan Mental Health\Substance Abuse Special Service District contributes to the Local Contributory Retirement System, Local Governmental Noncontributory Retirement System, which are all for cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement systems (Systems). Utah Retirement systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy. For plan members in the Local Governmental Noncontributory Retirement System, the District is required to contribute 11.62% for January 2008 – June 2008 and 11.62% for July 2008 – December 2008. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

San Juan Mental Health\Substance Abuse Special Service District's contributions to the Noncontributory Retirement System for the years ending December 31, 2008, 2007, and 2006 were \$69,092, \$59,793 and \$65,614 respectively. The contributions were equal to the required contributions for each year.

**8. PREPAID EXPENSES**

San Juan Mental Health\Substance Abuse Special Service District purchased several insurance policies that cover an entire year that does not follow the calendar year. The District has elected to allocate the payment monthly, which requires the amount to be recorded as an asset in prepaid expenses and record an expense on a monthly basis.

**9. FUNDING SOURCES**

San Juan Mental Health\Substance Abuse Special Service District operates on funds provided by Medicaid mental health contracts, Medicaid substance abuse contracts, several federal and state contracts and County match contributions. Part of the Medicaid contracts, require a match that has to come from other sources of funds. The District's ability to continue operations using Medicaid mental health and substance abuse contracts is contingent upon the County's ability to provide the necessary funding match. Although funding is not guaranteed, the County has a vested interest in the financial match that is needed for the security of the facility.

**10. CONTINGENT OBLIGATIONS**

Management, the Administrative Control Board and legal counsel for San Juan Mental Health\Substance Abuse Special Service District are aware of no litigation involving the District, either in progress or pending, which would materially affect the financial statements as of December 31, 2008, nor of any material contingencies not otherwise disclosed in the Notes to Financial Statements contained herein.

**11. LONG-TERM DEBT**

Business-type Activities

During 1998, the District issued, Health Care Facility Revenue Bonds, Series 1998, dated September 8, 1998, in the District's name for \$ 200,000 to Zions First National Bank, bearing an interest rate of two and one-half percent, payable over 20 years. The repayment schedule is as follows:

<u>Due Date - April 1,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2009	\$ 3,050	\$ 10,000	\$ 13,050
2010	2,800	10,000	12,800
2011	2,550	10,000	12,550
2012	2,300	11,000	13,300
2013	2,025	11,000	13,025
2014-2018	5,925	58,000	63,925
2019	300	12,000	12,300
	<u>\$ 18,950</u>	<u>\$ 122,000</u>	<u>\$ 140,950</u>

**11. LONG-TERM DEBT (Continued)**

The following schedule shows the activity of the bonds for the year ended December 31, 2008:

<u>Series</u>	<u>Bonds Payable January 1, 2008</u>	<u>New Debt Issued</u>	<u>Payments</u>	<u>Bonds Payable December 31, 2008</u>
Health Care Facility Revenue Bonds 1998	\$ 132,000		\$ 10,000	\$ 122,000
	<u>\$ 132,000</u>	<u>\$ ...</u>	<u>\$ 10,000</u>	<u>\$ 122,000</u>

**12. RELATED PARTY TRANSACTION**

The District does not have any transactions that meet the criteria of related party.

**13. RESERVED NET ASSETS**

During the year 2002, the Board adopted a resolution restricting the net assets. The amounts have changed for the current year, but the purposes have not changed.

Medicaid (90-day operational budget)	\$ 401,008
Liability for compensated absences	28,660
Bond reserve account	13,300
Capital outlay	<u>43,858</u>
	<u>\$ 486,826</u>

**14. RESTRICTED INVESTMENT**

In 1998, the District issued, Health Care Facility Revenue Bonds, Series 1998. In connection with the bond agreements, the District has established a bond sinking and a bond reserve fund held in the Utah State Public Treasurer's Investment Fund. This fund is to assure that adequate money is available to service debt payments as they come due and to pay for emergency repairs and replacements to the facilities, should such repairs or replacements be necessary. The required reserved/restricted amount is \$13,300.

**15. USE OF ESTIMATES**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.  
R. KIRT RICH, C.P.A.  
GREG MARSING, C.P.A.  
DOUGLAS RASMUSSEN, C.P.A.

## MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board  
San Juan Mental Health/Substance Abuse  
Special Service District  
356 South Main  
Blanding, Utah 84511

RE: Report on Compliance and Other Matters and  
on Internal Control Over Financial  
Reporting Based on an Audit of Financial  
Statements Performed in Accordance With  
Government Auditing Standards

We have audited the financial statements of the business-type activities of San Juan Mental Health/Substance Abuse Special Service District, as of and for the year ended December 31, 2008, and have issued our report thereon dated June 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. See findings 2008-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of non-compliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the District in a separate letter dated June 12, 2009.

This report is intended solely for the information and use of the audit committee, management, others within the organization, board of directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in black ink.

Price, Utah

June 12, 2009



**SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE  
SPECIAL SERVICE DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
AUDIT DECEMBER 31, 2008**

**FINDING 2008-1 PROPER REVENUE RECOGNITION AND RECORDING**

**Statement of Condition:**

The District is not recording private/third party pay on the accrual basis. The District is not consistent when recording revenue from some grants and contracts.

**Criteria:**

The District is required to record all transactions in the financial statements accurately and adhere to Generally Accepted Accounting Principles (GAAP). This requires the revenue to be recorded on the full accrual basis of accounting, which indicates when they are earned and become measurable.

**Cause of Condition:**

The District has had a change in responsibility for the recording of revenue and review of revenue transactions. It appears that either adequate training or a complete understanding of requirements has not been provided to District personnel.

**Effect or Possible Effect of Condition:**

Without proper revenue recognition the District is not able to fully assess whether they are receiving adequate funds to cover specific expenditures. In total they have sufficient information, but specific fund identification could be incomplete. Also, without proper recording of private/third party pay on a regular basis, the District's board would be unaware of changes (increases or decreases) in the accounts receivable for these funds. Informed decisions for an increase in the collection process for these accounts would be impossible.

**Recommendation:**

We recommend the District review their process of recording revenue and identify errors in the processing of these transactions. Make the necessary corrections and assign a responsible individual to review the transactions on a monthly basis. Also, District personnel need to review the private/third party billing and collections on a regular basis and record the activity to meet GAAP reporting.

**District's Response:**

We will make changes in the recording of revenue to proper accounts and assign a responsible employee to review the transactions. We will review the billing and collection of private/third party on a regular basis and make the necessary entries in the financial statements on a regular basis.

# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

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MEMBERS  
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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board  
San Juan Mental Health\Substance Abuse  
Special Service District  
356 South Main  
Blanding, Utah 84511

Re: Report on Legal Compliance with Applicable  
Utah State Laws and Regulations

We have audited the accompanying financial statements of the business-type activities of San Juan Mental Health\Substance Abuse Special Service District for the year ended December 31, 2008 and have issued our report, which was unqualified, thereon dated June 12, 2009. As part of our audit, we have audited the District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2008. The District received the following major State assistance program from the State of Utah.

Substance Abuse (Department of Human Services)  
Mental Health Services (Department of Human Services)

The District also received the following nonmajor grants, which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the District's financial statements).

Family Resource Facilitator (Department of Human Services)  
Sex Offenders (Department of Corrections)  
Corrections Clients (Department of Human Services)  
Drug Offender Reform Act (Department of Health)

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Budgetary Compliance
Cash Management	Special Districts
Purchasing Requirements	Other General Issues

The management of San Juan Mental Health\Substance Abuse Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination on the District's compliance with these requirements.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, San Juan Mental Health\Substance Abuse Special Service District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2008.

This report is intended solely for the information and use of management of the District and is not intended to be and should not be used by anyone other than the specified parties. However, the report is a matter of public record and its distribution is not limited.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

June 12, 2009

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Members of the Board  
San Juan Mental Health/Substance Abuse  
Special Service District  
Blanding, Utah 84511

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of San Juan Mental Health/Substance Abuse Special Service District for the year ended December 31, 2008.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all-inclusive. We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

## **INTERNAL CONTROLS AND FINANCIAL STATEMENT PRESENTATION**

### **Allowance Account**

We have reviewed the allowance account during the year and determined that the amounts established at the beginning of the year have not changed. Although accounts had been determined to be non-collectible, the adjustment and recording of this transaction did not occur until year-end.

We recommend the District write off non-collectible accounts during the year against the allowance account and establish a new allowance account for the current year to determine if a bad debt expense in the current year is needed. This will provide the District with better financial statement presentation and allow the Board to identify, on a regular basis, the fluctuations in this account.

**District's Response**

*The District will review their policies and procedures for non-collectible accounts and make the necessary adjustment in the financial statements and implement the recommendations of the auditors.*

**SUMMARY**

We feel the Internal Control issue mentioned above is one area where the District can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing".

Price, Utah

June 12, 2009